



PUBLIC AFFAIRS

OFFICE OF THE ASSISTANT TO THE SECRETARY OF DEFENSE
1400 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1400

30 DEC 1994

Ref: 94-F-2538/L



Mr. E. Mark Braden
Baker and Hostetler, Counsellors at Law
Washington Square, Suite 1100
1050 Connecticut Avenue NW
Washington DC 20036

Dear Mr. Braden:

This responds in part to your Freedom of Information Act Request of July 19, 1993, to the Department of Defense Inspector General (IG). The IG referred 20 documents for our review and release determination on November 22, 1994. We received the IG referral on November 28, 1994.

We have completed our review of 18 of the documents and they are released in their entirety. Copies of the documents are enclosed.

The two remaining documents were referred to the Defense Logistics Agency at the below listed address for their release determination.

Defense Logistics Agency
Administrative Support Center
Attn: DASC-RA
Cameron Station
Alexandria, VA 22304-6130

Sincerely,

A. H. Passarella
A. H. Passarella
Director
for Freedom of Information
and Security Review

Enclosures:
As stated

#720
17 docs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



A&IM

November 22, 1994

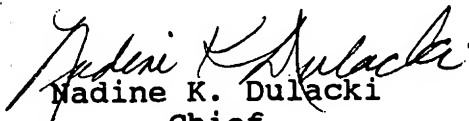
MEMORANDUM FOR DIRECTOR, FREEDOM OF INFORMATION AND
SECURITY REVIEW
OFFICE OF ASSISTANT SECRETARY OF DEFENSE
(PUBLIC AFFAIRS)
1400 DEFENSE PENTAGON, ROOM 2C757
WASHINGTON, D.C. 20301-1400

SUBJECT: Freedom of Information Act Request--
Mr. E. Mark Braden (Case Number 93-FOI-0205)

This Office processed a Freedom of Information Act request from Mr. Braden, for information concerning the C-17 cargo transport airplane program.

Upon review of the responsive documents provided by the Office of the Assistant Inspector General for Auditing, a documents under your cognizance were found in our files. Accordingly, Mr. Braden's request (*Enclosure 1*) and the responsive documents (*Enclosure 2*) are forwarded for your release determination and direct response to him. A copy of my response letter to Mr. Braden is enclosed for your information (*Enclosure 3*).

If you have any questions concerning this matter, please contact Mrs. Nancy Reed at (703) 604-9775.


Nadine K. Dulacki
Chief
Freedom of Information Act &
Privacy Act Office

Enclosures

BAKER
&
HOSTETLER
COUNSELLORS AT LAW

94-F-2538

WASHINGTON SQUARE, SUITE 1100 • 1050 CONNECTICUT AVENUE, N.W. • WASHINGTON, D.C. 20036-5304 • (202) 861-1500
FAX (202) 861-1783 • TELEX 2357276
WRITER'S DIRECT DIAL NUMBER (202) 861-1504

July 19, 1993

Chief
Department of Defense IG
Freedom of Information Act PA
Room 429A
400 A/N Drive
Arlington, Virginia 22202-2884

RECEIVED
93 JUL 20 AM 11:58
FOIA

Re: Freedom of Information Act Request

Dear Sir/Madame:

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, I request copies of documents or other records -- described more fully below -- in the custody or control of the U.S. Department of Defense and its branches pertaining to the C-17 cargo transport airplane program (hereinafter "the C-17 program").

As used herein, the terms "documents" and "records" mean and include all the originals and any nonidentical copies of all written, printed, or electronically-stored matter of every kind and description, including but not limited to correspondence, letters, memoranda, drafts, briefing charts, notes, calendars, diaries, reports, contracts, and minutes or other records (both formal and informal) of meetings, conferences, telephone conversations or other communications. "Documents" and "records" include information stored on paper or on computer, computer diskette, magnetic tape or any other form.

The documents requested are:

1. All documents or other records from January, 1993 through July 1, 1993 referring or relating to a memorandum dated April 29, 1993 from Secretary of Defense Les Aspin to the Acting Secretary of the Air Force regarding the C-17 program and disciplinary actions taken in conjunction with the C-17 program;

2. All documents or other records from January, 1993 through July 1, 1993 referring or relating to a report or review prepared by the United States Air Force prepared on or about April 21, 1993 and released on or about April 30, 1993 regarding the C-17 program and disciplinary actions taken in conjunction with the C-17 program;

3. All documents or other records from January, 1993 through July 1, 1993 referring or relating to the decision and announcement of April 30, 1993 by Secretary of Defense Les Aspin regarding the C-17 program and disciplinary actions taken in conjunction with the C-17 program;

4. All documents or other records from January, 1993 through July 1, 1993 referring or relating to disciplinary actions taken in conjunction with the C-17 program, to the extent these documents are not contained in the response to Request No. 3;

5. All documents or other records from November, 1992 through July 1, 1993 referring or relating to meetings, conversations, or other communications among officials of the OSD and the Air Force regarding the C-17 program, including but not limited to communications among Secretary of Defense Les Aspin, Deputy Secretary of Defense William J. Perry, Under Secretary of Defense (Acquisition) John Deutch, Rudy DeLeon, Nora Slatkin, DoD Inspector General Derek Vander Schaaf, Acting Secretary of the Air Force Michael Donley, or Air Force General Counsel Myron H. Nordquist.

6. All documents or other records from January, 1993 through July 1, 1993 referring or relating to meetings, conversations, or other communications among OSD, Air Force or other DoD officials and Members of Congress and their staffs, including but not limited to U.S. Rep. John Conyers (D-Mich.) and his staff, U.S. Sen. Charles Grassley (R-Iowa) and his staff, and staff members of the House Government Operations Subcommittee on Legislation and National Security, regarding the C-17 program and, in particular, referring to the DoD IG Report of January 14, 1993 regarding the C-17 program, the Air Force report prepared on or about April 21, 1993 and released on or about April 30, 1993 regarding the C-17 program, and the memorandum dated April 29, 1993 from Secretary of Defense Les Aspin to the Acting Secretary of the Air Force regarding the C-17 program.

Since the C-17 program has been the subject of significant public interest, I request the Department and its branches disclose any records which they have discretion to release, even if there is no legal obligation to disclose those records.

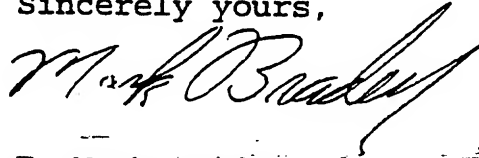
Department of Defense
July 19, 1993
Page 3

I am aware that fees may be charged for the direct costs of search, duplication or review, and am prepared to pay such fees. However, I request that you notify me prior to incurring such costs if the fees will exceed \$500.00, and provide us with an estimate of such fees or to arrange for review of the documents in lieu of duplication.

If this request is denied in whole or in part, please justify each and every withholding or deletion by reference to a specific exemption set out in the Freedom of Information Act, and state the reasons and other required information for such exemptions. If, in your view, any of the requested material is exempt from disclosure under the Act, please release all segregable portions of this material, as provided in the Act. We reserve the right to appeal any decision to withhold or delete any requested information.

Please call if you have any questions regarding any aspect of this request.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "E. Mark Braden", written in a cursive style.

E. Mark Braden

API

OSD/LEGISLATIVE AFFAIRS

Room 3D918, The Pentagon, Washington, D.C. 20301-1300
To verify transmission, contact the sender at the number below.

Please deliver to: Mr. Russ Rasmussen & Mr. Walt Kowal

Location: DODIG

Fax number: 3-7662

We are sending 18 pages, including this cover page.

Sender: _____ Phone: (703) 695-2304/3

STATEMENT OF
JOHN M. DEUTCH
UNDER SECRETARY OF DEFENSE
FOR ACQUISITION
ON
MOBILITY ISSUES
BEFORE THE
SENATE ARMED SERVICES COMMITTEE
REGIONAL DEFENSE AND CONTINGENCY FORCES SUBCOMMITTEE

JUNE 22, 1993

**Statement of John Deutch
Under Secretary of Defense for Acquisition**

**To the Senate Armed Services Committee
Subcommittee on Regional Defense and Contingency Forces**

**on Mobility Requirements and Programs
June 22, 1993**

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify today on mobility requirements and programs. I will review our requirements, indicate the programs that are underway to satisfy those requirements, and update you on recent events on the sealift and C-17 programs. The new team at the Defense Department is eager to share its views with you. We have recently reconsidered our mobility needs in the context of the Bottom-Up Review. We have built on the early work of the Mobility Requirements Study (MRS) and have found its conclusions to be generally valid for our new strategy and the forces we expect to propose.

Requirements

The MRS originated with the National Defense Authorization Act for FY 1991. Congress tasked the Department of Defense to determine future mobility requirements for the Armed Forces and to develop an integrated mobility plan. In both the determination of the requirement and the formulation of the integrated plan, the MRS took into account a number of interrelated factors, including potential threats, warning time, allied participation, overseas bases and access rights, and availability of commercial shipping. Other factors, such as preservation of US civil maritime capability, defense budget pressures, and lessons learned from the Persian Gulf war, were also considered.

The study effort began with analysis of logistic and warfighting aspects of potential regional crises or contingencies set in 1999, in the Middle East or Persian Gulf, on the Korean Peninsula, in Europe, in Southeast Asia, in the Western Hemisphere, and finally two concurrent regional contingencies beginning sequentially. In addition to scenario-based analysis, the study closely examined the experience gained in the Operation Desert Shield/Storm deployment and applied it to future requirements. In general, the study concluded that the deployment had been a success, but that limitations in mobility forces had imposed considerable risk. In the future, the United States must be able to deploy its combat power ~~more quickly and with a more robust level of support~~ throughout the force

The requirement for mobility forces is derived from the Middle East or Persian Gulf scenario, a demanding scenario in a region where vital US interests are clearly at stake. The capability to handle the Middle East or Persian Gulf scenario with moderate risk will be adequate for any other major regional contingency. In addition, amphibious lift and airlift components of these forces can handle lesser regional contingencies with no more than moderate risk.

To meet the total mobility requirement, the Department of Defense developed a plan, as described in MRS Volume I published in January 1992, of which the major components are:

- o To acquire -- through new construction and conversion -- additional sealift capacity equal to 20 large (380,000 square feet (sqft) total capacity and 300,000 sqft capacity for prepositioning configuration), medium-speed (24-knot sustained) roll-on/roll-off ships (LMSRs). In addition, to lease two container ships (2,000 Twenty-Foot Equivalent Unit (TEU) container capacity each) for prepositioning.
- o To deploy an afloat prepositioned package of approximately 2 million sqft of Army combat and combat support equipment. This package will be carried on nine LMSRs in the prepositioning configuration. In the near term, interim prepositioning ships will be used until converted and newly constructed ships are delivered. This additional force, added to the quick-reaction forces already in the DoD program, will provide an adequate capability to respond in force within the first few weeks to any single regional crisis that threatens US interests.
- o To add 3 million sqft of surge sealift capability for the rapid deployment of heavy Army divisions and support from the United States. This capability will be provided by 11 of the LMSRs in high readiness. When added to the eight fast sealift ships currently maintained by the Military Sealift Command, this will provide adequate capability to deploy rapidly from the United States in a regional crisis.
- o To expand the Ready Reserve Force (RRF) from the current 96 ships to 140 ships (of which 102 will be dry-cargo ships) and to increase the readiness of the fleet.
- o To continue the C-17 program to improve the airlift component of strategic mobility.
- o To improve other specific components of the transportation system within the United States to move combat and support units from their peacetime

MRS Volume II was delivered to the Congress on June 11, 1993. It provides backup for the requirements and plan developed in Volume I and provides additional analysis on: the concurrent sequential scenario, Ready Reserve Force siting and readiness, and European enroute basing infrastructure. It neither revises MRS Volume I acquisition recommendations nor provide additional ones. MRS Volume III is currently in development and will cover intratheater lift, the need for container and tanker ships for sustainment requirements, Marine Corps afloat follow-on echelon requirements, and add enroute basing infrastructure. Volume III is scheduled to be completed by the end of 1993.

Questions have been asked whether the Bottom-up Review, nearing completion, will modify the recommendations of MRS Volume I and the current acquisition plan. We are continuing to look at mobility requirements in the context of the Bottom-Up Review. Although our examination is not complete, present indications are that no reduction in our military mobility requirements will result from the review. Fundamentally, this is because the MRS requirements (to deploy a force to a single demanding scenario in a short period of time) are based on analysis reflecting the post-Cold War era and the MRS's approach was consistent with the Bottom-Up Review.

Dry Cargo Sealift

At the end of fiscal year 1993, our military dry cargo sealift will include eight fast sealift ships, thirteen maritime prepositioning ships (for the Marine Corps), and nine afloat prepositioning ships (for the Army, Navy, and Air Force). Additionally, we will have 93 dry cargo ships in the Ready Reserve Force. US Flag, effective US controlled, and allied shipping are also available for military use.

Sealift Acquisition

The status of the sealift acquisition plan is as follows: Over the past year, we have made significant progress toward increasing the nation's sealift capabilities through a combination of an aggressive acquisition program and increased readiness levels of our sealift fleet. The execution of our sealift plan is based on the in-depth analysis provided by Volume I of the MRS. The Navy plan for meeting the MRS requirements is described in the Strategic Sealift Implementation Plan (SSIP) which was forwarded to Congress by the Secretary of the Navy on January 13, 1993. The MRS called for deploying an afloat prepositioned package of 2 million square feet of Army combat equipment and support, and adding 3 million square feet of surge sealift capability to permit rapid deployment of Army combat equipment and support from the continental US. This added capability would be met by acquiring approximately 20 notional large,

medium-speed (24 knot) roll-on/roll-off ships (LMSRs).

In September 1992, the Secretary of the Navy was designated as the Executive Agent for ensuring that the MRS sealift requirements are met. The Navy has moved ahead quickly into the LMSR engineering design phase, through the award of both conversion and new construction engineering design contracts on October 30, 1992, and November 20, 1992. This effort is under the management of the Naval Sea Systems Command (NAVSEA). Ships will be purchased and converted or be new construction ships built to commercial standards to meet the need for additional sealift. The current procurement profile, based on Congressional limitations for a maximum of five foreign built ships for conversion, is for a maximum of seven conversion (five foreign built and two US. built ships) and approximately thirteen new construction ships. A total of eight U.S. shipyards are participating in the engineering design phase during which they are developing engineering designs for new construction and/or conversion of sealift surge and prepositioning ships. It is anticipated that contracts will be awarded for conversion of existing ships by July 1993 and for new construction ships by September 1993 using the \$2.5 billion already appropriated by Congress. In addition, Class Standard Equipment (CSE) for cargo handling equipment will be procured separately and provided to the shipbuilders as government furnished equipment. The CSE contract was awarded for the first shipset of equipment on March 29, 1993, to McGregor-Navire USA INC. of New Jersey, with options for the remaining nineteen shipsets. The first option for an additional seven shipsets is planned to be exercised prior to or concurrent with the award of the conversion contracts. Initial conversion ship deliveries will occur in FY 1995, and for new construction ships in FY 1997.

The sealift acquisition program has been streamlined because of its commercial, non-developmental nature. Various requirements of the DoD acquisition process have been waived allowing the program to proceed more quickly than similar military shipbuilding programs. All construction, alteration, and conversion work will be performed only in United States shipyards to help maintain America's vital shipyard industrial base as a national defense asset.

Interim Prepositioning

The Department will shortly commence implementation of the Interim ship prepositioning program that will serve until adequate sealift is available from conversion and new construction. This program will provide an afloat prepositioned heavy Army force for any contingency. A source for these ships is being determined.

Ready Reserve Force

Ready Reserve Force (RRF) expansion is proceeding. We have procured 12 of the nominal 19 roll-on/roll-off ships recommended by the Mobility Requirements Study. The readiness of the fleet has been enhanced by major upgrading of material condition of the ships when they were returned to the RRF from Operation Desert Shield/Storm duty.

CONUS Mobility Improvements

CONUS mobility improvements are underway. The Army is in the process of procuring approximately 145 of the 233 heavy-lift railcars recommended by the study. Improving our use of containers has been a continuing Department priority. During exercise Team Spirit we moved an entire Army signal battalion using containers. The study of a West Coast containerized ammunition facility has been completed and the implementation plan for the necessary capability is being developed.

Commercial Sealift

The sealift program recommended in the Mobility Requirements Study (MRS) did not duplicate the Maritime Administration's projection of the future capability of the U. S. commercial sealift (also called the U. S. Flag) fleet. That projection, has been called into question due to subsequent developments. The Department of Transportation (DoT) has proposed a new subsidy program to preclude a significant decrease in the fleet. The National Economic Council is considering the DoT proposal. As part of this effort, DoD is determining the impact of a decline in the fleet on its ability to meet the sustainment requirements of the MRS. DoD is also reviewing the costs and risks of alternative ways of acquiring an adequate capability. This effort is expected to be completed soon and will be updated, if necessary, to reflect the results of the Bottom-Up Review.

Airlift

At the end of fiscal year 1993, our military intertheater (or strategic) airlift force is planned to include 214 C-141, 109 C-5, 3 C-17, and 23 KC-10 primary authorized aircraft (PAA). Additionally, 146 long-range cargo aircraft are in the civil reserve air fleet (CRAF), which may be called upon in a contingency. The combined military and civilian fleet has a capacity of 51 million ton-miles per day (MTM/D). Current plans are to reduce the number of C-141s as the C-17s become operational. The CRAF also includes 262 long-range passenger aircraft which

provides 140 million passenger-miles per day (MPM/D) . Our intratheater (or theater) airlift includes 402 PAA C-130s and is also planned to decrease as the C-17s become operational.

C-17 Program

The C-17 airplane is intended to provide needed military cargo airlift for the next several decades, replacing the existing C-141 airplanes. It is expected to have a capability, now provided only by C-130 aircraft, to land on austere fields. Current plans call for procurement of 120 aircraft with a total program cost of approximately 40 billion dollars.

The C-17 program has been a troubled program almost since its inception; it is substantially over initial cost estimates and behind schedule. The program has received sharp congressional criticism and criticism from the Inspector General of the Department of Defense. Much of this criticism is deserved.

Secretary Aspin, Deputy Secretary Perry, and I believe that our approach to the C-17 program is especially important because it will define for Congress, the public, and the defense contracting community how we will manage the department's major acquisition programs. The hallmarks of our approach are candor and accountability -- candor about the status of the program and accountability for meeting cost, quality, and schedule milestones.

On April 30, 1993, I chaired a Defense Acquisition Board (DAB) review of the C-17 program. We found that the prime contractor, McDonnell Douglas Corporation (MDC), has made progress in engineering and manufacturing development (EMD) and producing early airplanes in Lots I, II, and III. Seven C-17s have been delivered, including the first operational C-17, which was delivered to the Air Mobility Command on June 10, 1993, and began initial squadron operations at Charleston Air Force Base, South Carolina on June 14, 1993.

However, I cannot report that this program has "turned the corner" and is in good health. While I believe MDC can continue to deliver C-17 airplanes, their cost and schedule are highly uncertain. Accordingly, we face two choices -- both unattractive: canceling the C-17 or beginning a difficult "work-out" program.

We believe that we have a firm basis for a need for new airlift capability. Indeed, the analysis of regional contingencies in the Bottom-Up Review assumes in every case the availability of flexible airlift with small austere airfield capability. Thus, it is clear that a military requirement exists for the airlift capability and that it must be met by the C-17 or some alternative. Note that, although the C-17 is not specifically being reviewed in the Bottom-Up Review, as other programs are, it has

been and continues to be subject to intensive review.

A complete cost and operational effectiveness analysis (COEA) for the C-17 program, in accordance with congressional requirements, will be available for a previously scheduled DAB review in August 1993. The COEA will explore the available alternatives -- reopening the C-5 line, replacing the C-141 wings to extend aircraft life, and acquiring commercial aircraft to meet a portion of the airlift requirements after a core military airlift requirement is met. The COEA will evaluate these alternatives in the most demanding scenarios of the Mobility Requirements Study and will determine the cost, throughput, and other important characteristics of the various alternatives.

Because the airlift capability is needed and as yet no more economical alternative for meeting this requirement has been identified, I decided, after the April DAB review, not to recommend cancellation of the C-17 program to Secretary Aspin and Deputy Secretary Perry. Rather, I initiated efforts, starting in May and running until the August DAB review, to better understand and to remedy some of the most glaring weaknesses of the current program. The weaknesses identified in the April DAB review include, but are not limited to:

- o technical risk in flight test software and avionics integration
- o structural deficiencies on wings, flaps, and slats
- o inadequate allocation of engineering and manufacturing personnel
- o lack of definitized contracts
- o uncertainty of flight test program requirements
- o labor bumping from the McDonnell Douglas commercial work force.

Accordingly, I directed the Secretary of the Air Force to take several specific actions by August 1 in anticipation of the August DAB. These actions include:

1. Resolving major outstanding issues on the current full-scale development contract.
2. Definitizing the Lot IV contract and incorporating a not-to-exceed price in the FY 93 Lot V and FY 94 Lot VI advance procurement contracts -- all of which have been accomplished.
3. Restarting the static wing test, after the Air Force assures us that the test article is representative of a production wing.

I have told MDC that their performance is not satisfactory and that their management of the C-17 program requires strengthening. I have met with Mr. John McDonnell, MDC's CEO, to emphasize my views. Because I am concerned about MDC's statements regarding additional claims on the full-scale development contract, I have requested that they submit, by August 1, 1993, the total value of their planned claims for events prior to that date. The amount of those claims will be factored into the COEA and the congressionally required C-17 affordability assessment.

In addition, I have formed a Defense Science Board (DSB) Task Force, consisting of high-level industry, Air Force, and OSD experts, to review every aspect -- including technical, production, testing, financial, and contractual -- of the C-17 program and to report directly to me by July 15 on the status of the program and on additional measures that should be taken by the contractor and the government to strengthen the program and reduce program risk if we are to proceed with this program. Mr. Robert Fuhrman, and LTG Jim Fain, USAF, are co-chairing this effort. The DSB task force has established seven integrated product teams (IPT) in the areas of: System Engineering and Operational Requirements, Production Transition and Manufacturing Processes, Ground and Flight Testing, Financial Management, Contracting, Project Management, and Supportability. The task force and the IPTs have been meeting since mid-May and I have recently been briefed on the IPT's initial findings.

My correspondence on the above actions are attached to this statement.

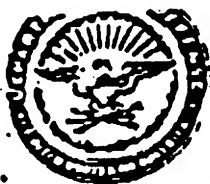
Why are we in the position we find ourselves in on the C-17 program? I believe there are two reasons. First we have the inevitable consequences of an inappropriate fixed-price development contract. In 1981, MDC, a sophisticated aerospace contractor, signed up for a fixed-price development contract (and initial production of six airplanes in Lots I and II) that has led this company to sustain over \$1.1 billion of losses. It is not surprising that a company that is experiencing growing losses on a fixed price development contract focuses on minimizing future losses and laying the basis for contract claims rather than on building a quality airplane. Second, I believe that the record shows that the McDonnell Douglas Corporation has been exceedingly slow to devote the managerial, technical, and financial resources necessary to successfully develop and build this aircraft.

Secretary Aspin, Bill Perry, and I are committed to establishing an acquisition process that permits a partnership between government and industry needed for successful completion of programs such as this. We are also committed to management that will not let a program go as far wrong as has occurred in the C-17 program. We shall manage existing programs and propose reforms to the acquisition system that will avoid the difficulties that have been encountered in the past in this and other major acquisition programs.

I want to stress that these major actions by themselves will not be sufficient to justify going forward with the C-17 program. I intend to review the program at the August DAB, taking into consideration: (1) the completion of the actions that are directed to the Air Force and MDC, (2) the findings and recommendations of the DSB Task Force, and (3) the result of a thorough COEA that examines alternative mixes of aircraft fleets. At that time, I will consider a full range of options for the future of the C-17 program, including termination, a major management restructuring, or continuing the work-out with the current contractor; and I will make a recommendation on whether to continue the C-17 program to Secretary Aspin and Deputy Secretary Perry.

Summary

Thank you for this opportunity to present the department's views on mobility requirements and the status of the C-17 and other programs to the Committee. I believe that we must forge a partnership with this Committee and the Congress to ensure that we are able to meet our mobility requirements for the future.



ACQUISITION

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Terms of Reference--Defense Science Board Task Force
on C-17 Review

You are requested to organize a Defense Science Board (DSB) Task Force to assess the current status of the C-17; the contractor's capability to successfully complete the C-17 development and transition into production; and identify the changes that would be necessary to ensure such success and reduce risk. The scope of the review will include an assessment of the following functional areas:

- Systems engineering (hardware and software)
- Production transition and Manufacturing Processes
- Ground and flight testing
- Financial management
- Contracting
- Project Management

Topics to be covered should include, but not be limited to, the following:

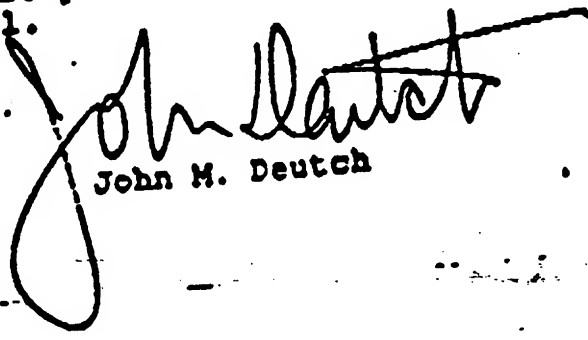
- o What are the principal areas of risk? How can this risk be properly managed?
- o What steps must the contractor take to assure satisfactory program execution?
- o What steps must the Government take to assure satisfactory program execution?
- o Are adequate resources (e.g., manpower, tooling, automated management systems) available and being properly applied? If not, what additional resources should be applied, and how much would they cost?
- o Are schedules realistic? If not, how should they be revised?
- o Is progress tracked by appropriate metrics? If not, what are the appropriate metrics that should be employed?
- o What is the status of integrated process and product development?

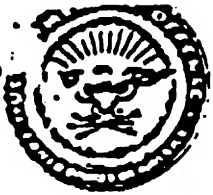
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MB

- o Considering the present state of the program, are there contractual changes that should be made to significantly reduce cost? If so, what are these changes?

The study will be sponsored by the Under Secretary of Defense (Acquisition). Mr. Robert A. Fuhrman and Major General James A. Fain, Jr., USAF, will serve as Co-Chairmen of the Task Force. Mr. Ronald Mutzelburg of the office of the Director, Strategic & Space Systems will serve as Executive Secretary and Mr. John V. Ello will serve as the Defense Science Board Secretariat representative. The USD(A) will provide funding and other support as may be necessary. The Task Force should begin this effort as soon as possible and provide a final report on or about July 15, 1993.

It is not anticipated that the work assigned to this Task Force will cause any member to be placed in the position of acting as a procurement official.


John M. Deutch



ACQUISITION

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

MEMORANDUM FOR SECRETARY OF THE AIR FORCE

SUBJECT: C-17 Defense Acquisition Board Preparation

At the recent Defense Acquisition Board (DAB) review, the Air Force stated that there has been improvement on the C-17 development program and that major technical and schedule problems are behind us. I do not agree with this assessment, because we continue to see late deliveries and lengthening testing schedules. I plan to conduct a DAB review of the C-17 in August, after which I will recommend whether or not the program should continue.

By August 1, I need the Air Force to:

- Recommend a resolution of major outstanding issues on contract F33637-91-C-2108, including:

- .. revised range/payload specification values that meet current operational requirements,

- .. deletion of any specification requirements you consider unnecessary,

- .. inclusion in the contract of all current testing requirements,

- .. consideration for late delivery of C-17 aircraft P-4, P-5, and P-6,

- .. resolution of the sustaining engineering cost classification issue.

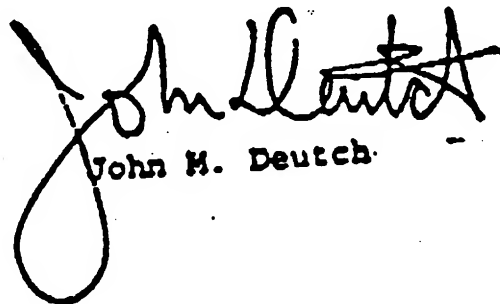
- Definitize Lot IV and incorporate not-to-exceed prices in the advance procurement contracts for Lots V and VI.

- Identify a source to fund Lot III to ceiling.

Finally, you may restart the static wing test, after you provide me assurance that it is representative of the production wing with permanent corrections. I would like the same assurance on the durability test wing.

Attached is a copy of the letter I have sent to McDonnell Douglas. I would like you to advise me on the steps that McDonnell Douglas is taking in response to my letter.

I insist that the highest level Air Force attention be focused on improving the management of the C-17 program, which can only be demonstrated by the fulfillment of contractual commitments.


John M. Deutch

Attachment



ACQUISITION

THE UNDER SECRETARY OF DEFENSE
WASHINGTON, DC 20301

11 May 1993

MEMORANDUM FOR COMMANDER, DEFENSE CONTRACT MANAGEMENT COMMAND, DLA
SUBJECT: C-17 Delivery Schedule Assessment

I plan to conduct a Defense Acquisition Board (DAB) review of the C-17 in August. In support of that DAB, I will need by August 1 your assessment of when C-17 aircraft P-7 through P-16 will be delivered. This should include an advisory on the status of any deficiencies on those aircraft. Please also provide me information on whether McDonnell Douglas Corporation is providing adequate staffing and production equipment to the C-17 program.

Attached is a copy of a letter I have sent to McDonnell Douglas. I would like you to advise me on the steps McDonnell Douglas is taking in response to my letter.



John M. Deutch

Attachment
As stated



ACQUISITION

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

Mr. John F. McDonnell
Chairman and Chief Executive Officer
McDonnell Douglas Corporation
P.O. Box 516
St. Louis, MO 63166-0516

Dear Mr. McDonnell:

The Department of Defense has just completed an initial review of the C-17 program. Based on this review, we are convinced that McDonnell Douglas must take immediate aggressive action to ensure that the company will meet contractual requirements. Unless there is a strong resolve on the part of McDonnell Douglas corporate management to meet contract requirements, particularly schedule, specifications, and testing requirements, the C-17 program cannot be continued.

We shall conduct a Defense Acquisition Board (DAB) review of the C-17 in August to determine progress made by the program and on the specific actions listed below. Completing these actions will be a major part of my decision on whether to recommend continuation of the C-17 program. Your cooperation is an integral element of all these actions.

(1) I am directing the Secretary of the Air Force to take specific actions by August 1. Enclosed is a copy of the directions.

(2) I have established an independent review team to carry out by July 15 an assessment of McDonnell Douglas production, technical, testing, financial, and contracting issues and to make recommendations on any additional measures that should be taken by the contractor and the government.

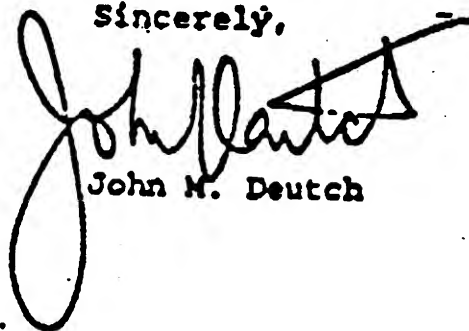
(3) We must have your plan for strengthened management of the C-17 program, including specific manufacturing and engineering improvements to ensure that contract requirements are met. I would like your management plan by June 15 to provide to the review team.

(4) I am concerned about the claims on the C-17 program. McDonnell Douglas has filed approximately \$425 million of claims and your corporate officers have said you will file substantial additional claims. The Department has underway a Cost and Operational Effectiveness Analysis on the C-17 and other airlift alternatives. We intend to include the cost of claims in the C-17

price for this purpose. Therefore, I request a statement of the total dollar value of claims McDonnell Douglas plans to submit against contract F33657-81-C-2108 and your agreement that there will be no additional claims against that contract for events occurring on or before August 1, 1993, which is the date that we request you submit the claims limit statement.

We have a strong operational requirement for increased airlift. Without the full commitment of McDonnell Douglas to build the C-17 efficiently, on time, and to the highest quality standards, we will have to meet the requirement with an alternative to the C-17.

Sincerely,

A handwritten signature in dark ink, appearing to read "John Deutch", with a large loop at the bottom left.

John M. Deutch

Enclosure



ACQUISITION
(APU/ASM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
WASHINGTON, DC 20301

APL

June 8, 1993

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: DIRECTOR, ACQUISITION MANAGEMENT
DIRECTORATE, OFFICE OF AUDITING

SUBJECT: C-17 Program Acquisition Decision Memorandum (ADM)

Per my memorandum of May 18, 1993, please find attached the
C-17 program ADM dated May 21, 1993, with its attachments.

A handwritten signature in black ink, appearing to read "Gene H. Porter", is located above the typed name.

Gene H. Porter
Director, Acquisition
Program Integration

Attachment



ACQUISITION

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

MAY 21 1993

MEMORANDUM FOR SECRETARY OF THE AIR FORCE
ATTN: SERVICE ACQUISITION EXECUTIVE

SUBJECT: C-17 Acquisition Decision Memorandum

On April 30, 1993, the Defense Acquisition Board (DAB) met to review the C-17 program in accordance with the memorandum at Tab A. Presentations on the following subjects were made:

- Alternatives, requirements, and cost effectiveness (J-8 of the Joint Staff)
- Program review (Program Manager)
- Contract alternatives (Program Executive Officer)

The Strategic Systems Committee had previously recommended that the current program continue to be supported, pending a DAB review in August 1993.

Because I will not have a C-17 COEA until August 1993, I plan to conduct another DAB review of the C-17 in August, after which I will recommend whether or not the program should continue.

In order to support the August DAB:

- The Secretary of the Air Force is to take the actions specified in the letter at Tab B.

- The Commander, Defense Contract Management Command, DLA, is to assess the aircraft delivery schedule and provide additional advice in accordance with the letter at Tab C.

- The Chairman and Chief Executive Officer of McDonnell Douglas Corporation has been asked to submit his plan for strengthening management of the program and a ceiling on claims against the development/Lot I/Lot II contract (Tab D).

- A high-level, independent, government-industry C-17 review team has been established to report to me prior to the August DAB. The terms of reference for this review are at Tab E.

The August DAB will also address the following Congressionally mandated matters:

- An assessment by the Joint Requirements Oversight Council (JROC) of the adequacy of the requirements for the C-17 aircraft.

- Analysis by the Institute for Defense Analyses of the cost and operational effectiveness of the C-17 program taking into consideration complementary mixes of other aircraft.

- An affordability assessment of the program supported by the Cost Analysis Improvement Group.

Termination liability funding may be provided as follows:

- Lot IV: No additional termination liability funding may be provided until the priced contract for Lot IV is executed.

- Lot V: No additional termination liability funding may be provided until:

- The Air Force executes a contract modification providing for a not-to-exceed (NTE) price for Lot V.

- The Air Force presents for my approval, direction to Air Force contracting personnel stating that advance procurement funding for each annual buy shall be provided on a separate new contract rather than on a long lead time amendment to an existing contract.

After my approval, Lot V termination liability funding may be provided through August 1993.

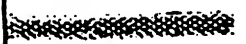
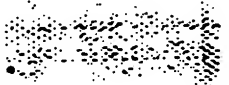
- Lot VI Advance Procurement: Termination liability funding may be provided for Lot VI through August 1993, consistent with congressional authorization and appropriation for Lot VI advance procurement.


John M. Deutch

Attachments

cc:
DAB Members

A



16
APR 17 1993

QUISITION

MEMORANDUM FOR MEMBERS OF THE DEFENSE ACQUISITION BOARD

SUBJECT: C-17 Defense Acquisition Board (DAB) Program Review

On April 30, I would like to conduct a thorough review of the program including a relook at our military airlift needs, an examination of whether the C-17 best meets those needs, a delineation of C-17 requirements that drive cost and that could be reduced or eliminated, and a presentation of alternative contract approaches. I would like the following organizations to address these significant matters:

- Joint Staff: Is the requirement for airlift, as stated in the Mobility Requirements Study, still valid? What other concepts of deployment could be employed that would make other airlift alternatives viable? As compared to other alternatives, does the C-17 remain the most cost-effective means to satisfy airlift requirements (to be addressed in conjunction with Program Analysis & Evaluation)?

- Air Force: What are the current estimates of performance, technical and production risk, cost, and schedule for this program? Have solutions for known technical problems been developed? Are there any C-17 specification requirements that could be eliminated or reduced (to be addressed in conjunction with the Joint Staff)? What measures should be taken to strengthen program management, both by the government and contractor? Identify alternative contract approaches (to be addressed in conjunction with Defense Procurement).

- Defense Procurement: Can the contractor continue to perform in light of its financial situation?

The Director, Strategic and Space Systems, will coordinate preparations for this review.

John M. Deutch

B



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

ACQUISITION

MEMORANDUM FOR SECRETARY OF THE AIR FORCE

SUBJECT: C-17 Defense Acquisition Board Preparation

At the recent Defense Acquisition Board (DAB) review, the Air Force stated that there has been improvement on the C-17 development program and that major technical and schedule problems are behind us. I do not agree with this assessment, because we continue to see late deliveries and lengthening testing schedules. I plan to conduct a DAB review of the C-17 in August, after which I will recommend whether or not the program should continue.

By August 1, I need the Air Force to:

- Recommend a resolution of major outstanding issues on contract F33657-91-C-2108, including:

- .. revised range/payload specification values that meet current operational requirements,

- .. deletion of any specification requirements you consider unnecessary,

- .. inclusion in the contract of all current testing requirements,

- .. consideration for late delivery of C-17 aircraft P-4, P-5, and P-6,

- .. resolution of the sustaining engineering cost classification issue.

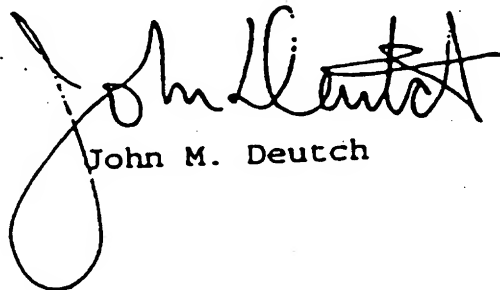
- Definitize Lot IV and incorporate not-to-exceed prices in the advance procurement contracts for Lots V and VI.

- Identify a source to fund Lot III to ceiling.

Finally, you may restart the static wing test, after you provide me assurance that it is representative of the production wing with permanent corrections. I would like the same assurance on the durability test wing.

Attached is a copy of the letter I have sent to McDonnell Douglas. I would like you to advise me on the steps that McDonnell Douglas is taking in response to my letter.

I insist that the highest level Air Force attention be focused on improving the management of the C-17 program, which can only be demonstrated by the fulfillment of contractual commitments.

A handwritten signature in black ink, appearing to read "John M. Deutch". The signature is stylized with a large, looping initial "J" and a horizontal line across the middle of the name.

John M. Deutch

Attachment

C



THE UNDER SECRETARY OF DEFENSE
WASHINGTON, DC 20301

11 May 1993

ACQUISITION

MEMORANDUM FOR COMMANDER, DEFENSE CONTRACT MANAGEMENT COMMAND, DLA

SUBJECT: C-17 Delivery Schedule Assessment

I plan to conduct a Defense Acquisition Board (DAB) review of the C-17 in August. In support of that DAB, I will need by August 1 your assessment of when C-17 aircraft P-7 through P-16 will be delivered. This should include an advisory on the status of any deficiencies on those aircraft. Please also provide me information on whether McDonnell Douglas Corporation is providing adequate staffing and production equipment to the C-17 program.

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John M. Deutch

Attachment
As stated

0



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

ACQUISITION

Mr. John F. McDonnell
Chairman and Chief Executive Officer
McDonnell Douglas Corporation
P.O. Box 516
St. Louis, MO 63156-0516

Dear Mr. McDonnell:

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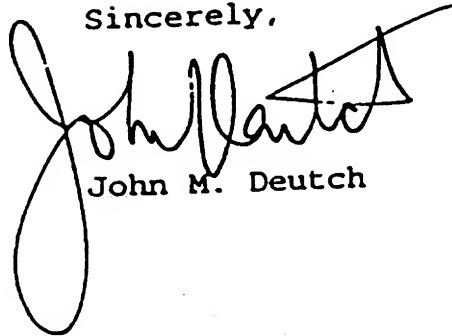
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We have a strong operational requirement for increased airlift. Without the full commitment of McDonnell Douglas to build the C-17 efficiently, on time, and to the highest quality standards, we will have to meet the requirement with an alternative to the C-17.

Sincerely,

A handwritten signature in dark ink, appearing to read "John M. Deutch". The signature is stylized with a large, looping "J" and a long, sweeping underline that extends to the right.

John M. Deutch

Enclosure

E



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

ACQUISITION

MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Terms of Reference--Defense Science Board Task Force
on C-17 Review

You are requested to organize a Defense Science Board (DSB) Task Force to assess the current status of the C-17; the contractor's capability to successfully complete the C-17 development and transition into production; and identify the changes that would be necessary to ensure such success and reduce risk. The scope of the review will include an assessment of the following functional areas:

- Systems engineering (hardware and software)
- Production transition and Manufacturing Processes
- Ground and flight testing
- Financial management
- Contracting
- Project Management

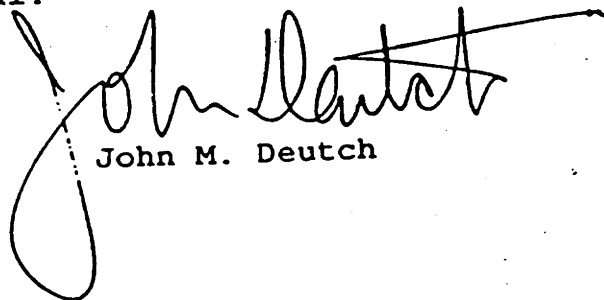
Topics to be covered should include, but not be limited to, the following:

- o What are the principal areas of risk? How can this risk be properly managed?
- o What steps must the contractor take to assure satisfactory program execution?
- o What steps must the Government take to assure satisfactory program execution?
- o Are adequate resources (e.g., manpower, tooling, automated management systems) available and being properly applied? If not, what additional resources should be applied, and how much would they cost?
- o Are schedules realistic? If not, how should they be revised?
- o Is progress tracked by appropriate metrics? If not, what are the appropriate metrics that should be employed?
- o What is the status of integrated process and product development?

- o Considering the present state of the program, are there contractual changes that should be made to significantly reduce cost? If so, what are these changes?

The study will be sponsored by the Under Secretary of Defense (Acquisition). Mr. Robert A. Fuhrman and Major General James A. Fain, Jr., USAF, will serve as Co-Chairmen of the Task Force. Mr. Ronald Mutzelburg of the office of the Director, Strategic & Space Systems will serve as Executive Secretary and Mr. John V. Ello will serve as the Defense Science Board Secretariat representative. The USD(A) will provide funding and other support as may be necessary. The Task Force should begin this effort as soon as possible and provide a final report on or about July 15, 1993.

It is not anticipated that the work assigned to this Task Force will cause any member to be placed in the position of acting as a procurement official.



John M. Deutch



OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

April 20, 1993

ACQUISITION

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES
VICE CHAIRMAN, JOINT CHIEFS OF STAFF
ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL,
COMMUNICATIONS AND INTELLIGENCE)
ASSISTANT SECRETARY OF DEFENSE (FORCE MANAGEMENT
AND PERSONNEL)
ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL
SECURITY POLICY)
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND
LOGISTICS)
ASSISTANT SECRETARY OF DEFENSE (PROGRAM ANALYSIS
AND EVALUATION)
COMPTROLLER
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANT TO THE SECRETARY OF DEFENSE (ATOMIC
ENERGY)
DIRECTOR, DEFENSE INTELLIGENCE AGENCY
DIRECTOR, ACQUISITION POLICY AND PROGRAM
INTEGRATION
DIRECTOR OF DEFENSE PROCUREMENT
DIRECTOR, TEST AND EVALUATION
DEPUTY DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
CHAIRMAN, COST ANALYSIS IMPROVEMENT GROUP
DIRECTOR, DEFENSE SECURITY PROGRAMS (C3I)

SUBJECT: Defense Acquisition Board C-17 Program Review

As indicated in the attached memorandum, the Under Secretary of Defense (Acquisition) has requested that a C-17 Defense Acquisition Board (DAB) program review be held on April 30, 1993.

A Strategic Systems Committee (SSC) meeting will be held from 1300-1600, Monday, April 26, 1993, in room 3D1019. Attendance is limited to one principal and one staff representative of each SSC member and additionally, the necessary briefers from the Joint Staff, Program Analysis and Evaluation, the Air Force, and Defense Procurement. Please provide the names of your attendees to Milton J. Minneman, USD(A)/S&SS(AS), x56188, FAX x37039, 3E139, by 1300, Friday, April 23.

Attachment

cc: J-8/SPED
PA&E/PF
SAF/AQQ
PEO(T/A)
~~DP/CP&F~~
DP/DSPS

George R. Schneider
George R. Schneider
Director
Strategic and Space Systems



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

AP1

APR 12 1993

ACQUISITION

MEMORANDUM FOR MEMBERS OF THE DEFENSE ACQUISITION BOARD

SUBJECT: C-17 Defense Acquisition Board (DAB) Program Review

On April 30, I would like to conduct a thorough review of the program including a relook at our military airlift needs, an examination of whether the C-17 best meets those needs, a delineation of C-17 requirements that drive cost and that could be reduced or eliminated, and a presentation of alternative contract approaches. I would like the following organizations to address these significant matters:

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- Air Force: What are the current estimates of performance, technical and production risk, cost, and schedule for this program? Have solutions for known technical problems been developed? Are there any C-17 specification requirements that could be eliminated or reduced (to be addressed in conjunction with the Joint Staff)? What measures should be taken to strengthen program management, both by the government and contractor? Identify alternative contract approaches (to be addressed in conjunction with Defense Procurement).

- Defense Procurement: Can the contractor continue to perform in light of its financial situation?

The Director, Strategic and Space Systems, will coordinate preparations for this review.

John M. Deutch

JOHN S. DINGELL, MICHIGAN, CHAIRMAN

BENNETT BROWN, OHIO
MAJORIE MARGOLIS-MEYERSON,
PENNSYLVANIA
HENRY A. WALKER, CALIFORNIA
CARLOS COLLIER, ILLINOIS
RON WYDEN, OREGON
JOHN BRYANT, TEXASDAN SCHAEFER, COLORADO
CARLOS J. MOOREHEAD, CALIFORNIA
FRED LUTTOR, MICHIGAN
PAUL S. GILLMORE, OHIO

NEED P.F. STUNTZ, STAFF DIRECTOR/CHIEF COUNSEL

APV

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, DC 20515-6116

January 25, 1993

The Honorable Les Aspin
Secretary of Defense
Department of Defense
The Pentagon
Washington, D.C. 20301

Dear Secretary Aspin:

I understand that you have recently reviewed the Department of Defense Inspector General's report on the C-17 program. This is a devastating report, particularly in its strong criticism of officials at the highest levels of the Air Force and at the highest levels of the McDonnell Douglas Corporation. Like the Navy's A-12 fiasco, this is a perfect case study of what is wrong with the defense acquisition system. I trust you will consider ordering a review of this matter at the OSD level, to be conducted by someone who is not involved with this matter in any way, to determine what laws and regulations were violated, who was responsible, and what actions should be taken against the individuals involved. Moreover, there undoubtedly are broader lessons that could be learned from such an inquiry.

Further, the Subcommittee staff has been in touch with your staff to discuss an Air Force plan that apparently was arrived at in a matter of hours on January 19, Secretary Donald Rice's last day in office. The centerpiece of the plan is to hire Kathleen Buck of the law firm of Kirkland and Ellis to review this matter for the Air Force under contract. This use of an outside law firm for such seemingly sensitive matters is bizarre at best, and, to the extent that Kirkland and Ellis represent any defense contractors, Ms. Kathleen Buck and her firm could well have significant conflict-of-interest problems. Moreover, she was the General Counsel of the Air Force when civilian control was weakened, which I believe led to many of the problems on the C-17 program. As you recall, we were both concerned about this reorganization when, on March 26, 1987, we jointly wrote to then-Secretary of Defense, Caspar Weinberger, protesting the "streamlining" of Air Force management:

OFFICE OF THE
SECRETARY OF DEFENSE
93 JAN 28 AM 9:07

73568

7-25-93

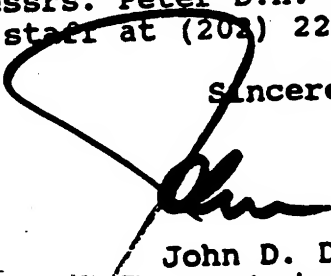
The Honorable Les Aspin
January 25, 1993
Page 2

"The currently proposed Air Force reorganization appears to emasculate internal civilian controls and checks and balances, especially involving the acquisition of major weapons systems in the Air Force. This portends the worsening of an already dismal record of financial and technical management of major acquisition in the Air Force due to inadequate or non-existent cost and technical controls. The B-1 debacle is only one example."

The Subcommittee plans to pursue a number of matters involving the C-17 program. Therefore, I would appreciate it if you would have your staff contact the Subcommittee staff to arrange a briefing on your plans for handling the Inspector General's report, as well as the Kirkland and Ellis review.

Thank you for your cooperation. If you have any questions, please contact Messrs. Peter D.H. Stockton or Bruce F. Chafin of the Subcommittee staff at (202) 225-4441.

Sincerely,



John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

cc: The Honorable Dan Schaefer
Ranking Republican Member
Subcommittee on Oversight and Investigations

*All good wishes on
your difficult but most important
new responsibilities —*

APL

Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON DC 20515-6143

January 21, 1993

The Honorable Les Aspin
Secretary
Department of Defense
The Pentagon
Washington, D.C. 20307-1155

Dear Mr. Secretary:

The Committee on Government Operations will conduct an oversight hearing to examine the current status of the C-17 Airlifter. The hearing is scheduled for Wednesday, March 17, 1993, at 10:00 a.m., in Room 2154 of the Rayburn House Office Building.

Specifically, we are examining the financial and technical aspects of the program, as well as the conduct of Air Force personnel involved with the administration of the C-17.

I am inviting Mr. Michael B. Donely, Assistant Secretary of the Air Force for Financial Management; Ms. Eleanor Spector, Director of Defense Procurement; Lieutenant General Edward P. Barry, former Program Executive Officer; Major General Michael Butchko, former C-17 Program Manager; and Major General John M. Nauseef, former Deputy Chief of Staff, Air Force Systems Command; to present testimony to the Committee concerning the role of the Department of Defense in this major acquisition program.

In order to prepare for that appearance, it will be necessary to have at least 25 copies of the testimony available no later than 48 hours prior to the hearing and 75 copies at the time of the hearing for release by the Subcommittee. Please send them to the Subcommittee at B-373 Rayburn House Office Building, Washington, D.C. 20515, to the attention of Cheryl Matcho, clerk.

Thank you for your cooperation.

Sincerely,


John Donely, Jr.
Chairman



THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

19 FEB 1993

MEMORANDUM FOR SECRETARY OF THE AIR FORCE

SUBJECT: Inspector General's Report on Government Actions Concerning
McDonnell Douglas Corporation Financial Condition During
1990

I am troubled by the allegations, findings, and recommendations contained in the Inspector General's report addressing actions taken by Air Force officials from July through December 1990 on the C-17 program. Before we decide on the steps the Department of Defense will take in response to the report, I would like your recommendations. Therefore, I request that you provide any additional factual information that should be considered, along with your proposed response to the recommendation that disciplinary action be taken against five Air Force officials, within 60 days to the Deputy Secretary of Defense.

Since these individuals have not yet had an opportunity to respond to the report's findings, please provide each of them the opportunity to respond as soon as possible, but no later than within 60 days. Additionally, I direct that before any personnel actions involving any of these individuals are taken you provide to me your analysis of the findings and any responses from the individual involved.

The Inspector General also recommended the Air Force initiate an Anti-Deficiency Act investigation for C-17 progress payment request number 97. I direct that you conduct this investigation immediately.

J. A. Quinn

75076

2-19-93



THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

April 29, 1993

MEMORANDUM FOR THE ACTING SECRETARY OF THE AIR FORCE

From: The Secretary of Defense

Subject: Air Force Review of the DOD Inspector General
Report on the C-17 Aircraft (January 14, 1993)

In January, the Deputy Inspector General released a report on the C-17 program and the financial condition of the McDonnell-Douglas Corporation. The report raised questions about the management and financial integrity of the C-17 program, and specifically about Air Force actions to provide financial assistance to the Douglas Aircraft Company in late 1990.

After reviewing the Inspector General's report, I directed the Air Force to respond to the allegations. This instruction was issued in my memorandum of February 19.

Last week, the Air Force forwarded its response. I have now reviewed the report and the Air Force comments concerning allegations about five key Air Force personnel involved in the C-17 acquisition program.

In its examination of the allegations, the Air Force found no basis to believe that criminal conduct was involved in the management of the program. The facts presented to date by the Deputy Inspector General and the Air Force suggest that this finding is correct.

The Air Force also found that some management actions, while questionable, were within a range of normal management discretion. I disagree with this judgment.

The defense acquisition system operates on the principle of centralized policymaking and decentralized execution. At the heart of the system is the need for accountability at all levels. If the system is to work, then those charged with the responsibility for the management of billion dollar systems must perform to the highest standard.

MEMORANDUM FOR THE ACTING SECRETARY OF THE AIR FORCE

The story of the C-17 program reflects an unwillingness on the part of some high-ranking acquisition professionals to acknowledge program difficulties and to take decisive action. Without questioning the motivation of Air Force personnel, I must insist that program leaders understand their responsibilities to identify, early and forthrightly, significant program difficulties. Clearly, this was not done in the case of the C-17.

Consequently, I direct that you take the follow actions:

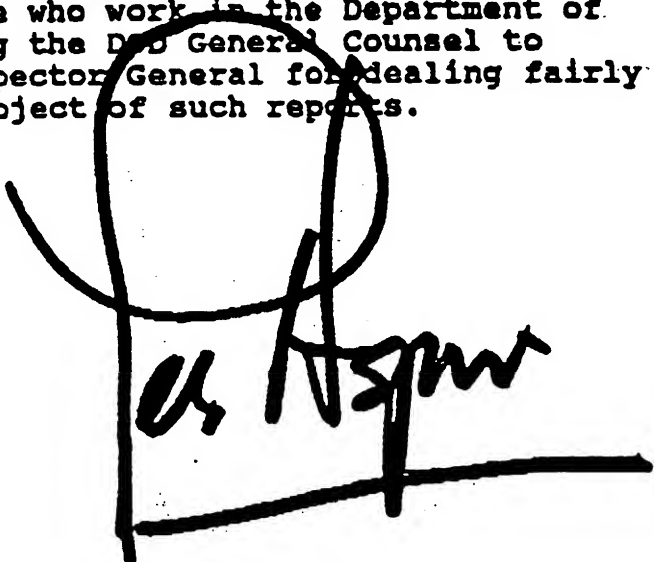
First, because the former program manager has not demonstrated the judgment necessary for senior leadership positions, he should be relieved of his current duties.

Second, the lack of judgment of four of the five individuals should be made part of their permanent record.

Third, because I have lost confidence that four of the five individuals identified in the Deputy Inspector General's report can be effective in acquisition, they should not be assigned to work in the acquisition management area.

Knowing that both civilian and military Air Force personnel in the acquisition system are dedicated, capable professionals, I trust that this community will recognize that the motivation for my actions is to strengthen the acquisition system and to encourage its efficient operation.

Finally, it is apparent that allegations of misconduct in an Inspector General report also present difficult issues of fairness for the rights of those who work in the Department of Defense. Therefore, I am asking the DoD General Counsel to develop procedures with the Inspector General for dealing fairly with individuals who are the subject of such reports.





THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-1000



January 19, 1993

APF
Jan 21, 93

MEMORANDUM FOR: SECRETARIES OF THE MILITARY DEPARTMENTS
UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ACTING INSPECTOR GENERAL OF THE DEPARTMENT
OF DEFENSE

SUBJECT: Recommendation to Deputy Secretary of Defense in Inspector General
Report of January 14, 1993 entitled "Government Actions Concerning
McDonnell Douglas Corporation Financial Condition During 1990"

The Acting Inspector General of the Department of Defense's report of January 14, 1993 entitled "Government Actions Concerning McDonnell Douglas Corporation Financial Condition During 1990" recommended in part that:

"1. The Deputy Secretary of Defense provide full authority for selection, promotion, evaluation and removal of Program Executive Officers, Program Directors and program Managers to the Under Secretary of Defense for Acquisition for all major Defense acquisition programs."

By DOD Directive 5134.1 (September 30, 1992) and Deputy Secretary of Defense Memorandum of August 12, 1991 entitled "Strengthening Technology and Acquisition Functions," the Under Secretary of Defense for Acquisition has been delegated the authority to direct the Secretaries of the Military Departments and the heads of all other elements of the Department of Defense on all matters of acquisition. The memorandum of August 12, 1991 also provided that:

"The Secretaries of the Military Departments and the heads of other Department of Defense components shall consult the Under Secretary of Defense for Acquisition prior to assigning an officer or employee to serve as a Program Executive Officer or a Program Manager, or reassigning an officer or employee so serving, for any program subject to review by the DAB."

The Secretaries of the Military Departments and the Under Secretary of Defense for Acquisition shall submit to the Deputy Secretary of Defense (or in the absence of a Deputy Secretary, the Secretary of Defense) within 30 days of the date of this memorandum their views on whether to approve the Acting Inspector General's recommendation that the Deputy Secretary of Defense provide full authority for selection, promotion, evaluation and removal of Program Executive Officers, Program Directors and Program Managers to the Under Secretary of Defense for Acquisition for all major Defense acquisition programs.

J. J. Atwood

72975

7-7975f

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United States Senate

CHARLES E GRASSLEY

WASHINGTON, DC 20510-1501

May 5, 1993

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(319) 322-4331

The Honorable Les Aspin
Secretary of Defense
Pentagon, Room 3E880
Washington, D.C. 20301

Dear Les,

I am writing to praise your decision to hold four senior Air Force officials accountable for financial mismanagement on the C-17 contract and to raise two questions about Ms. Darleen Druyun.

First, I would like to commend you for taking this decisive step. You have sent a clear, unambiguous signal of zero tolerance toward dishonesty in the department's acquisition process. This is the best kind of deterrent to future failures of discipline and integrity. You deserve a lot of credit for having the courage to do what had to be done.

Second, I am somewhat baffled by the complete omission of Ms. Druyun's name from available documents bearing on your decision in this important matter.

The Inspector General has suggested that Ms. Druyun may have engaged in either improper or illegal conduct in connection with C-17 progress payment number 97 that resulted in a potential violation of the Antideficiency Act and other statutes. For these reasons, the Inspector General recommended that disciplinary action be taken against her and four other senior officials. You chose to discipline the four other officials but not her. Why did you decide not to punish Ms. Druyun?

Ms. Druyun presently occupies a key position in the "acquisition management area." She is the Deputy Assistant Secretary of the Air Force for Acquisition. She was placed in this position in February 1993 - one month after the Inspector General recommended that she be disciplined for improper or illegal behavior.

In view of your decision to banish Generals Barry and Nauseef and Mr. Hixenbaugh from the "acquisition management area" and in view of the fact that the Inspector General has yet to resolve all

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~~JUDICIARY~~
OFFICE OF TECHNOLOGY ASSESSMENT

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the issues surrounding possible Antideficiency Act violations, is it wise to leave Ms. Druyun in such an important "acquisition management" post?

Your thoughts would be appreciated. A response is requested by May 12, 1993.

Sincerely,

Chuck Grassley
Charles E. Grassley
U.S. Senator

CEG/chm



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

ACQUISITION

MEMORANDUM FOR SECRETARY OF THE AIR FORCE

SUBJECT: C-17 Defense Acquisition Board Preparation

At the recent Defense Acquisition Board (DAB) review, the Air Force stated that there has been improvement on the C-17 development program and that major technical and schedule problems are behind us. I do not agree with this assessment, because we continue to see late deliveries and lengthening testing schedules. I plan to conduct a DAB review of the C-17 in August, after which I will recommend whether or not the program should continue.

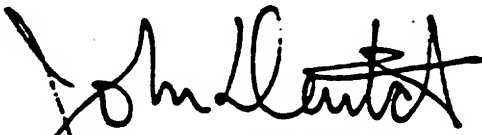
By August 1, I need the Air Force to:

- Recommend a resolution of major outstanding issues on contract F33657-81-C-2108, including:
 - revised range/payload specification values that meet current operational requirements,
 - deletion of any specification requirements you consider unnecessary,
 - inclusion in the contract of all current testing requirements,
 - consideration for late delivery of C-17 aircraft P-4, P-5, and P-6,
 - resolution of the sustaining engineering cost classification issue.
- Definitize Lot IV and incorporate not-to-exceed prices in the advance procurement contracts for Lots V and VI.
- Identify a source to fund Lot III to ceiling.

Finally, you may restart the static wing test, after you provide me assurance that it is representative of the production wing with permanent corrections. I would like the same assurance on the durability test wing.

Attached is a copy of the letter I have sent to McDonnell Douglas. I would like you to advise me on the steps that McDonnell Douglas is taking in response to my letter.

I insist that the highest level Air Force attention be focused on improving the management of the C-17 program, which can only be demonstrated by the fulfillment of contractual commitments.



John M. Deutch

Attachment



11 May 1993

ACQUISITION

MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Terms of Reference--Defense Science Board Task Force
on C-17 Review

You are requested to organize a Defense Science Board (DSB) Task Force to assess the current status of the C-17; the contractor's capability to successfully complete the C-17 development and transition into production; and identify the changes that would be necessary to ensure such success and reduce risk. The scope of the review will include an assessment of the following functional areas:

- Systems engineering (hardware and software)
- Production transition and Manufacturing Processes
- Ground and flight testing
- Financial management
- Contracting
- Project Management

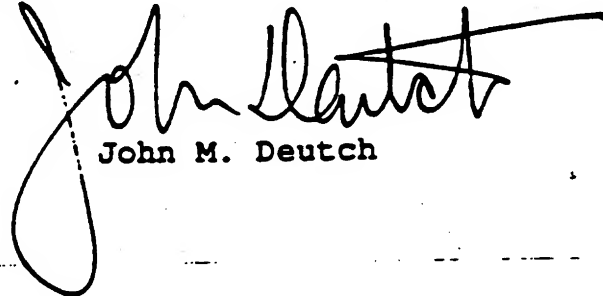
Topics to be covered should include, but not be limited to, the following:

- o What are the principal areas of risk? How can this risk be properly managed?
- o What steps must the contractor take to assure satisfactory program execution?
- o What steps must the Government take to assure satisfactory program execution?
- o Are adequate resources (e.g., manpower, tooling, automated management systems) available and being properly applied? If not, what additional resources should be applied, and how much would they cost?
- o Are schedules realistic? If not, how should they be revised?
- o Is progress tracked by appropriate metrics? If not, what are the appropriate metrics that should be employed?
- o What is the status of integrated process and product development?

- o Considering the present state of the program, are there contractual changes that should be made to significantly reduce cost? If so, what are these changes?

The study will be sponsored by the Under Secretary of Defense (Acquisition). Mr. Robert A. Fuhrman and Major General James A. Fain, Jr., USAF, will serve as Co-Chairmen of the Task Force. Mr. Ronald Mutzelburg of the office of the Director, Strategic & Space Systems will serve as Executive Secretary and Mr. John V. Ello will serve as the Defense Science Board Secretariat representative. The USD(A) will provide funding and other support as may be necessary. The Task Force should begin this effort as soon as possible and provide a final report on or about July 15, 1993.

It is not anticipated that the work assigned to this Task Force will cause any member to be placed in the position of acting as a procurement official.



John M. Deutch



THE UNDER SECRETARY OF DEFENSE
WASHINGTON, DC 20301

APC

11 May 1993

ACQUISITION

MEMORANDUM FOR COMMANDER, DEFENSE CONTRACT MANAGEMENT COMMAND, DLA
SUBJECT: C-17 Delivery Schedule Assessment

I plan to conduct a Defense Acquisition Board (DAB) review of the C-17 in August. In support of that DAB, I will need by August 1 your assessment of when C-17 aircraft P-7 through P-16 will be delivered. This should include an advisory on the status of any deficiencies on those aircraft. Please also provide me information on whether McDonnell Douglas Corporation is providing adequate staffing and production equipment to the C-17 program.

Attached is a copy of a letter I have sent to McDonnell Douglas. I would like you to advise me on the steps McDonnell Douglas is taking in response to my letter.

A handwritten signature in black ink, appearing to read "John M. Deutch", is written over a horizontal line.

John M. Deutch

Attachment
As stated



THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

11 May 1993

ACQUISITION

Mr. John F. McDonnell
Chairman and Chief Executive Officer
McDonnell Douglas Corporation
P.O. Box 516
St. Louis, MO 63166-0516

Dear Mr. McDonnell:

The Department of Defense has just completed an initial review of the C-17 program. Based on this review, we are convinced that McDonnell Douglas must take immediate aggressive action to ensure that the company will meet contractual requirements. Unless there is a strong resolve on the part of McDonnell Douglas corporate management to meet contract requirements, particularly schedule, specifications, and testing requirements, the C-17 program cannot be continued.

We shall conduct a Defense Acquisition Board (DAB) review of the C-17 in August to determine progress made by the program and on the specific actions listed below. Completing these actions will be a major part of my decision on whether to recommend continuation of the C-17 program. Your cooperation is an integral element of all these actions.

(1) I am directing the Secretary of the Air Force to take specific actions by August 1. Enclosed is a copy of the directions.

(2) I have established an independent review team to carry out by July 15 an assessment of McDonnell Douglas production, technical, testing, financial, and contracting issues and to make recommendations on any additional measures that should be taken by the contractor and the government.

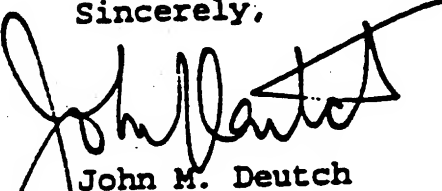
(3) We must have your plan for strengthened management of the C-17 program, including specific manufacturing and engineering improvements to ensure that contract requirements are met. I would like your management plan by June 15 to provide to the review team.

(4) I am concerned about the claims on the C-17 program. McDonnell Douglas has filed approximately \$425 million of claims and your corporate officers have said you will file substantial additional claims. The Department has underway a Cost and Operational Effectiveness Analysis on the C-17 and other airlift alternatives. We intend to include the cost of claims in the C-17

price for this purpose. Therefore, I request a statement of the total dollar value of claims McDonnell Douglas plans to submit against contract F33657-81-C-2108 and your agreement that there will be no additional claims against that contract for events occurring on or before August 1, 1993, which is the date that we request you submit the claims limit statement.

We have a strong operational requirement for increased airlift. Without the full commitment of McDonnell Douglas to build the C-17 efficiently, on time, and to the highest quality standards, we will have to meet the requirement with an alternative to the C-17.

Sincerely,



John M. Deutch

Enclosure



THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

April 29, 1993

MEMORANDUM FOR THE ACTING SECRETARY OF THE AIR FORCE

From: The Secretary of Defense

Subject: Air Force Review of the DOD Inspector General
Report on the C-17 Aircraft (January 14, 1993)

In January, the Deputy Inspector General released a report on the C-17 program and the financial condition of the McDonnell-Douglas Corporation. The report raised questions about the management and financial integrity of the C-17 program, and specifically about Air Force actions to provide financial assistance to the Douglas Aircraft Company in late 1990.

After reviewing the Inspector General's report, I directed the Air Force to respond to the allegations. This instruction was issued in my memorandum of February 19.

Last week, the Air Force forwarded its response. I have now reviewed the report and the Air Force comments concerning allegations about five key Air Force personnel involved in the C-17 acquisition program.

In its examination of the allegations, the Air Force found no basis to believe that criminal conduct was involved in the management of the program. The facts presented to date by the Deputy Inspector General and the Air Force suggest that this finding is correct.

The Air Force also found that some management actions, while questionable, were within a range of normal management discretion. I disagree with this judgment.

The defense acquisition system operates on the principle of centralized policymaking and decentralized execution. At the heart of the system is the need for accountability at all levels. If the system is to work, then those charged with the responsibility for the management of billion dollar systems must perform to the highest standard.

MEMORANDUM FOR THE ACTING SECRETARY OF THE AIR FORCE

The story of the C-17 program reflects an unwillingness on the part of some high-ranking acquisition professionals to acknowledge program difficulties and to take decisive action. Without questioning the motivation of Air Force personnel, I must insist that program leaders understand their responsibilities to identify, early and forthrightly, significant program difficulties. Clearly, this was not done in the case of the C-17.

Consequently, I direct that you take the follow actions:

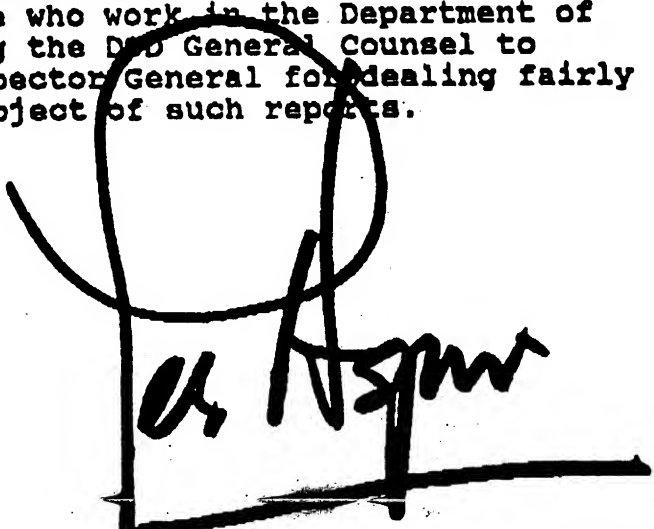
First, because the former program manager has not demonstrated the judgment necessary for senior leadership positions, he should be relieved of his current duties.

Second, the lack of judgment of four of the five individuals should be made part of their permanent record.

Third, because I have lost confidence that four of the five individuals identified in the Deputy Inspector General's report can be effective in acquisition, they should not be assigned to work in the acquisition management area.

Knowing that both civilian and military Air Force personnel in the acquisition system are dedicated, capable professionals, I trust that this community will recognize that the motivation for my actions is to strengthen the acquisition system and to encourage its efficient operation.

Finally, it is apparent that allegations of misconduct in an Inspector General report also present difficult issues of fairness for the rights of those who work in the Department of Defense. Therefore, I am asking the DoD General Counsel to develop procedures with the Inspector General for dealing fairly with individuals who are the subject of such reports.



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United States Senate

CHARLES E. GRASSLEY

WASHINGTON, DC 20510-1501

March 23, 1993

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OFFICE OF THE
SECRETARY OF DEFENSE
93 MAR 24 PM 3:02

The Honorable Les Aspin
Secretary of Defense
Pentagon, Room 3E880
Washington, D.C. 20301

Dear Mr. Les Secretary:

I am writing to express concern about the apparent direction of your department's review of the Inspector General's C-17 investigation.

A very disturbing Department of Defense (DOD) memorandum has come to my attention.

The memorandum in question is directed to you. It is from Mr. Frank Wisner - one of your most senior deputies - your nominee for the position of Under Secretary of Defense for Policy. The subject of the memorandum is "Bottom-Up Review of Defense Needs and Programs." The "Bottom-Up" review is expected to culminate with the presentation of the first Clinton defense budget and five-year plan in January 1994. The memorandum was circulated in the Pentagon earlier this month.

The source of my concern pertains to Attachment B of the document. Attachment B is entitled "Selected Defense Programs for Early Review." The programs listed include: SDI, tactical aircraft (F-18 E/F, F-22, AFX), attack helicopters (Commanche), attack submarines (SSN-21), etc. Mr. Wisner describes these as "several hot-button acquisition programs where decisions are needed to feed the Bottom-Up Review." The footnote to Attachment B is the part that really bothers me. It reads as follows:

"Positions on C-17 and V-22 assumed not up for consideration in the Bottom-Up Review. Unless some disaster occurs, it is unlikely that we will move off our visible support for these programs during the summer. We should, however, have a process to carefully analyze them."

Clearly, Mr. Secretary, the C-17 has been specifically and deliberately exempted from further review and scrutiny. That is a recipe for abuse. It sends the wrong message to the Air Force. The Air Force will now think that the C-17 has been inoculated by your office. The Air Force will think you have granted the C-17 program a pardon. The Air Force will think the C-17 is now immune from accountability. The Air Force will now "circle the wagons"

Committee Assignments:

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and protect the program at all costs.

Your memorandum of February 19, 1993, on the Inspector General's investigation of the C-17 program was ~~so positive and~~ constructive. You said: "I am troubled by the allegations, findings and recommendations" in that report and directed the Air Force to respond to it. Your memorandum, however, stands in stark contrast to Mr. Wisner's decision to exempt the C-17 program from internal review for the balance of the year.

Mr. Secretary, I would like to know why the C-17 program has been exempted from the "Bottom-Up Review"? Surely, of all DOD "hot-button" programs, the C-17 is in need of an early and thorough review. The root cause of the problems identified in the Inspector General's reports on the C-17 are exactly the kinds of issues that must be decisively resolved in your "Bottom-Up" - if you are to succeed in creating a viable five-year defense program.

Sincerely,

Church

Charles E. Grassley
U.S. Senator

CEG/chm

*Thank very much
for your consideration!*

Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

January 26, 1993

The Honorable Les Aspin
Secretary
Department of Defense
The Pentagon
Washington, D.C. 20307-1155

Dear Mr. Secretary:

Congratulations on your appointment as Secretary of Defense. We will miss your expertise here in the House, but your guidance and leadership are badly needed in the Pentagon.

I am sorry to start off my first correspondence to you with a monumental problem, but unfortunately that is the case. On February 21, 1992, I asked the Department of Defense Inspector General to investigate and document an allegation that I had made earlier as to favoritism and advantageous treatment of McDonnell Douglas by the Department of Defense. The report by the Inspector General is now in my hands.

For two years I have been asking Air Force and Defense Department personnel about these matters. On the one hand I am outraged by what I see in this report, and at the same time I am saddened by what I see as the betrayal of the trust placed in general officers of the military by the American people. The procurement system is badly damaged. But more important, the credibility and integrity of the services has been severely tarnished by the actions of these officers.

The IG's report and the investigation by the Legislation and National Security Subcommittee, which I chair, have confirmed our allegations. There was a concerted plan by the Pentagon to bail out its largest contractor.

"Expedited Government payments were made that exceeded appropriate amounts by \$349 million. Financing provided also exceeded the fair value of undelivered work by an additional \$92 million. Improper contracting actions reduced contractor financial risk on the C-17 Program by \$1.6 billion and created a false appearance of success to facilitate both the contractor obtaining financing through commercial sources and issuance of debt securities, and the Air Force securing additional funding from Congress."

"The improper actions substantially increased Government program risk, provided premature payments to the contractor, negatively impacted first aircraft delivery, and contractually obligated the Government to award a subsequent Lot III production contract. Award of the Lot III production contract was particularly important because it provided an additional source of funding to the contractor, and a further false indication of program success. These actions also resulted in potential violations of statutes and acquisition regulations."

It is important to remember that at this very same time period the Navy A-12 program was also in serious trouble. It was later proven that there was also deception and misrepresentation of facts to the Secretary of Defense and to the Congress about the A-12. That program was cancelled in January 1991 after \$2.6 billion had been spent. The contractors involved in the A-12 were McDonnell Douglas and General Dynamics. In February 1991, over \$1.35 billion owed back to the Government by McDonnell Douglas and General Dynamics was deferred indefinitely by the Department of Defense. Although dividend payments have continuously been paid to the stockholders of both companies, no interest payments have ever been collected on the \$1.35 billion debt.

The IG commented on the similarity between the two programs:

"We found numerous similarities between the management of the failed Navy A-12 Program and the Air Force C-17 Program during the fall of 1990. The Navy, however, conducted an administrative inquiry into the management of the A-12 Program while the Air Force, and in particular the General Counsel [Ann C. Peterson], and Assistant Secretary of the Air Force (Acquisition) [John J. Welch], refused to do so."

The deception regarding this program goes farther than just Air Force officials:

"We consider the actions of BG Butchko, BG Nauseef, and Mrs. Druyun [Principal Assistant Deputy Chief of Staff, Air Force Systems Command] inappropriate. They acted in concert to influence the DPRO to make progress payments based on financial need...The actions of those Air Force officials temporarily masked the actual financial condition of the contractor by permitting the contractor to defer recognition of a loss on the contract and retain excess unliquidated progress payments to which the contractor was not entitled and which should have been recouped...Further, the actions, when considered together with modifying the 2108 contract on September 24, 1990 to establish a delivery schedule known to be unachievable...intentionally created an illusion of contractor stability and program success. Subsequently, on October 23, 1990, the DAC (Douglas Aircraft Company) reported as part of the third quarter 1990 financial results, that it expected to complete the contract without incurring a loss...rather than behind schedule and above ceiling price."

We intend that this matter be referred to the Securities and Exchange Commission for investigation.

In the hearing held by the Legislation and National Security Subcommittee in May 1992, it was alleged that on October 2, 1990, there was a demand by the Chairman of the McDonnell Douglas Corporation for approximately \$500 million, or he would shut down the C-17 program. The DPRO commander testified that there was a commitment made to provide certain funds. The report addresses that situation as follows:

"According to three DPRO representatives at the briefing on October 4, 1990, BG Butchko stated that the Air Force had 'promised' the contractor \$300 million in the month of Oct 1990...payments on order of \$300 million in October were not possible."

The contractor and the Air Force went to great lengths to come up with schemes that would try to cover or justify their actions. One of the more original was the Monthly Estimate to Complete or "METC" system. This was invented to draw attention away from the negative historical information and try to focus on current performance.

available since long-lead funding was nearly exhausted, while providing another contract to shift engineering costs to as a result of the accounting practice change."

"We believe the contractor reported the understated EAC as of September 29, 1990 in order to defer recognizing a loss on the 2108 contract in the company's third quarter financial reports, which recognized the 2108 contract as at or near break even after consideration of \$125 million in claims yet to be submitted to the Government ... The deferral of loss recognition was particularly important to the contractor at this point because of the registration statement filed with the Securities and Exchange Commission on August 1, 1990 in order to obtain additional long term financing."
(Emphasis added)

The deception and manipulation by the senior officials in this matter is bad enough, but unfortunately it went even further:

"During his visit to the DPRO, BG Nauseef was viewed by DPRO personnel as using 'definite intimidation' to encourage the DPRO to be a 'team player' and agree to the use of alternative means to measure contractor performance, specifically the 'METC' technique. One DPRO official provided the following description of how BG Nauseef handled opposition to the 'METC' technique by the DPRO Deputy Commander, an Air Force lieutenant colonel:

'I do remember General Nauseef saying, look, if you're not going to be a team player, Lieutenant Colonel, then just get out of here. You don't need to be in this meeting if you're not going to be a team player. It got a little tough.'"

Such conduct by senior officers is deplorable. The Defense Plant Representative, a colonel, stood up to the generals involved and was rewarded by being reassigned or being retired.

"One DPRO official commented that BG Butchko and BG Nauseef supported the 'METC' technique solely because it supported their objective of providing cash flow to the contractor, and if someone did not support the use of 'METC,' they were not a team player."

Honorable Les Aspin
January 26, 1993
Page 9

The action here that is so outrageous is that the contractor had exhausted the development funds and therefore was responsible for payment of any further costs. What happened is that these Senior Air Force officials took it upon themselves to transfer that shortage of funds to the taxpayer rather than the contractor. That action is inexcusable. As before, it didn't stop there.

"We believe the October 1990 transition proposal for sustaining engineering costs from development to production lots and Air Force approval were only part of a far more reaching plan to circumvent internal controls and provide funding to the contractor ...Therefore, the chain of events was an attempt to postpone implementation of a substantially higher EAC until after the Lot III contract award, which was projected for December 1990."

After contract award, the SPO could use an EAC computed in October 1990 or later that reflected the transition of sustaining engineering costs from development to production and request additional funding based on 'cost growth.' That course of action would open the use of expired appropriations to fund the cost growth on Lot III that was already known to exist prior to the planned contract award and would not require congressional approval because of 'cost growth.'"

By now you have the focus of the report.

I ask that you suspend this program now, if only to find out the true status of both the contracts and the aircraft structure. We will call for the immediate investigation of the McDonnell Douglas Corporation by the Securities and Exchange Commission into the financial reporting on this program.

I am also asking the Justice Department to reopen the criminal investigation into the C-17 program. When the Inspector General was asked during the May 13, 1992 hearing before my Subcommittee if the Air Force had hindered the criminal investigation, he stated:

"...Well, in effect that got us into a situation where we didn't have a victim. You can't have a crime without a victim or when there is a willing victim."

PA-DM
10/11/93
No. 149-M
April 30, 1993

MEMORANDUM FOR CORRESPONDENTS

Secretary of Defense Les Aspin ordered an Air Force general relieved of duty and directed that three other persons no longer work in acquisition management based on their performance in the Air Force C-17 cargo aircraft program.

"Those who oversee the spending of billions of dollars to provide weapons for our defense have to perform to the highest standard, and they must be held accountable for that performance. I no longer have confidence that these individuals will perform to that standard," Aspin said.

Aspin directed that Maj. Gen. Michael J. Butchko, Jr., be relieved as Commander of the Air Force Development Test Center based on his performance when he was C-17 System Program Director.

"General Butchko was the person in charge as program director and bears the chief responsibility," Aspin said.

The three persons that the secretary directed no longer work in acquisition are:

Lt. Gen. Edward P. Barry, Jr., formerly C-17 Program Executive Officer and now Commander, Space and Missile Systems Center.

Brig. Gen. John M. Nauseef, Deputy Chief of Staff, Financial Management and Comptroller, Headquarters, Air Force Materiel Command.

A. Allen Hixenbaugh, formerly C-17 program Deputy Director for Contracting and now Special Assistant to the Director of Contracting, Aeronautical Systems Center, Air Force Materiel Command.

Both the management of the C-17 program and its financial operations have been under review. In January, the DoD Deputy Inspector General released a report on the C-17 program that raised questions about management and financial integrity of the program.

The Air Force responded to the Deputy Inspector General's findings with its own report. The Air Force report was made public today. Aspin took the personnel action after considering both the Deputy Inspector General's report and the Air Force response.

-MORE-

2-13-93a

-2-

"In examining the [Deputy Inspector General's] allegations, the Air Force found no basis to believe that criminal conduct was involved in the management of the program. The facts presented to date by the Deputy Inspector General and the Air Force suggest that this finding is correct," Aspin said.

"The Air Force also found that some management actions, while questionable, were within the range of normal management discretion. I disagree with this judgment," Aspin said.

The Secretary directed the personnel actions in a memorandum to the Acting Secretary of the Air Force. A copy of the memorandum is attached. The executive summary of the Air Force response to the Deputy Inspector General's report is available from the Directorate for Defense Information.

-END-



PRODUCTION AND
LOGISTICS
(P/CPF)

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-6000

DDP
MAR 23 1990

MEMORANDUM FOR EXECUTIVE DIRECTOR, CONTRACT MANAGEMENT, DEFENSE
LOGISTICS AGENCY

SUBJECT: Progress Payment Loss-Ratio Adjustment and Fair Value

There have been a number of questions concerning the use of the loss-ratio adjustment in light of the requirements of 10 USC 2307 (e)(1). That section requires that "any payment for work in progress . . . is commensurate with the work, which meets standards of quality established under the contract, that has been accomplished."

The statute requires that the fair value of the work-in-process always be greater than the unliquidated progress payments. The policy of the Department of Defense is that this requirement shall be met by use of the loss-ratio adjustment.

The statutory requirement cannot be waived by the Department of Defense. However, the method used to evaluate the fair value of work-in-process is governed by existing FAR policy; an alternative method may be used if appropriate in particular circumstances, as long as a deviation is obtained in accordance with DFARS 232.171.

The memorandum, subject: DLA-AC Letter No. AC-90-09, Loss Ratio Adjustment," dated February 9, 1990, should be revised to be consistent with the above.

Eleanor R. Spector
Eleanor R. Spector
Deputy Assistant Secretary of
Defense for Procurement

cc: SAJ/AQCP